SharedImpact®

Next generation impact investment

Give Me Credit
A Guide for Impact Investees

- Loans, Bonds
- Equity
- Quasi-Equity
- Revenue Participation Agreements
- Standby Facilities
- Overdrafts
- Patient Capital
- Social Impact Bonds
- Loan Guarantees

Foreword

At SharedImpact, we believe that true philanthropy requires a disruptive mindset, innovative thinking and a bias for action driven by entrepreneurial insights and creative opportunities.

Impact investing is strategic philanthropy at its best. This is not just about old-fashioned charitable giving but about thoughtfully solving problems - and creating long-term social impact around the world.

The future of impact investing is in your hands. What we do today will decide the shape of things tomorrow. We hope that this booklet provides some practical assistance for impact investees as they approach the market.

We have tried to keep this overview of SharedImpact's activities as concise as possible, but two factors conspire to make it longer than we would wish:

Firstly, the impact investment market is complex, and it is useful to explain the landscape in which we operate.

Secondly, SharedImpact's activities function at many levels - the underlying mechanisms and the way in which we impact various stakeholders, require careful explanation.

I hope that you will find the information and ideas here of interest. If you would like to discuss how SharedImpact can help your charity, social enterprise or social-purpose organization, please contact us.

Paul Cheng, Chairman, SharedImpact

"*Nothing is more powerful than an idea whose time has come.*" - Victor Hugo

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The following organizations have worked with us to deliver the SharedImpact vision:

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Drinker Biddle & Reath
Freshfields Bruckhaus Deringer
Orrick, Herrington & Sutcliffe
Withers

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Technical platform & management:
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We are grateful to the following for their support and help:

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Thomson Reuters Foundation
NESTA
Ashoka
City of London Corporation
Esmée Fairbairn Foundation
Community Foundation Network

…and countless individuals working within both our civil society & business community

Introduction

At SharedImpact, we actively seek applications for financial support from organizations seeking to make a positive impact on the world.

We have produced this guide to help increase the quality of these applications, and increase the likelihood that they will attract funding, both from us and other impact investors.

In this guide, we explain what impact investing is, how it can be relevant to your organization, and the issues you need to be aware of in order to successfully obtain such funding.

Too many social-purpose organizations have a perceived cultural aversion to debt and equity funding, or even believe it is not permitted for them. However, such investments are extremely powerful tools with which all financial directors of social enterprises and charities should become familiar.

SharedImpact is a philanthropic impact investor. We are a non-profit, registered charity, with a mandate to improve the efficiency and effectiveness of charities and social enterprises globally.

SharedImpact is gifted donations by philanthropists, corporations and foundations, and then uses these funds to provide impact investment throughout the world. We are, therefore, unusual in that we can ‘convert’ capital from sources, such as foundations, that are only mandated to grant donations into funds that can be invested for impact.

We welcome your feedback for inclusion in future editions of this guide, and invite you to collaborate with us in increasing the use of impact investment by charities and social enterprises.

What is Impact Investing?

Impact investing describes all investment activity which has an expectation of both a specified social outcome and an explicit financial return.

It is, therefore, different from grant funding where there is no financial return and the funding is not returned to the funder.

Is Impact Investment suitable for your organization?

This question lies at the heart of the overall funding assessment. In order to answer the question yourself, you should think about the following:

- If I borrow these funds:
  - how will I be able to pay them back?
  - is there an identifiable future revenue stream?
  - how certain are those future revenue streams?
  - are future grants expected to cover loan repayments?
- Is my venture socially impactful? How?
- How does my venture create positive change in society?
- Could I borrow the funds from mainstream financial sources like banks?

Identifying your future revenue streams

Identifying and modelling your revenue and cashflow streams for impact investment is no different than for any for-profit venture. You need to model all your costs and income, and consider growth over time and the uncertainties in all these factors.

If you are struggling to identify revenue streams in your impactful activities, then it may well be that your organization is not suited for impact investment, and grant funding is more appropriate.

In many cases, grant funding is the right answer - especially for charitable and early stage organizations.

“Nonprofit” does not mean you can’t make a profit

One of the greatest misunderstandings in the charity sector (and indeed in society at large) is the idea that you are not allowed to make a profit if you are a charity. Nothing could be further from the truth.

Whatever organization you run, whether it is a business or a charity, it is imperative that income exceeds expenditure. If it does not, and you continually make losses, then eventually your organization will become bankrupt. The laws of economics do not disapply just because you run a charity or a social enterprise.

Of course, in the charity sector, we prefer not call it a “profit” but rather a “surplus”. Moreover, unlike commercial enterprises, this charitable surplus is never distributed back to shareholders (because there are none), and so there is no private benefit. Instead, the surplus is reinvested back into the charity in order to pursue its charitable mission.

It is, therefore, quite erroneous to say that charities that trade (such as Oxfam) are “profiting from their beneficiaries”. They are, in fact, making a profit in order to help their beneficiaries even further.

Understanding financial statements

One of the major barriers preventing charities and social enterprises from accessing capital is that many of them fail to adequately distinguish between revenue and capital; rather they tend to focus on income and costs, with a corresponding lack of knowledge about, or confidence in, asset management (especially in relation to their balance sheets), capital investment and identifying financing needs and options.

To address this it is important that you understand how to read financial statements. Investors will quickly sense if you do not have this basic financial understanding - and will then politely reject you by directing you towards grant-makers and traditional charity donors.

There are three key financial statements that you must understand:

(a) Income & Expenditure Account

Most people intuitively understand how this works - this basically shows how much money has come into your organization, and how much has been spent, over the course of the financial year.

The Income & Expenditure Account is prepared on an accruals basis, which means that revenues are recognised when they are earned (rather than when cash is received).

Clearly, more money should be coming in than going out - otherwise, you will be making a loss (or “deficit”) which you will have to cover in some way.

If you continue to make losses, then you risk a situation where your organization will be unable to meet its liabilities as they fall due, and your organization may then go bankrupt. You should also be wary of continual losses as you may be committing the offence of “wrongful trading”.

(b) The Balance Sheet

A balance sheet is often described as a “snapshot of a company’s financial condition”. It basically answers the question: “How much is this company worth?”

Financial resilience comes from having a healthy balance sheet. Like businesses, charities have working capital requirements for both day-to-day cash management needs and for ensuring a 'margin of safety' in the balance sheet.

Of the three basic financial statements, the balance sheet is the only statement which applies to a single point in time in a company's calendar year.

A standard company balance sheet has three parts: assets, liabilities, and ownership equity (the last of these will not apply to most charities as they are structured as companies limited by guarantee with no share capital).

It is called a "balance sheet" because the assets must equal the liabilities (i.e. all the assets have to be funded in some way). The assets must be balanced by the liabilities.

The main categories of assets are usually listed first, and typically in order of liquidity (i.e. by the degree of ease with which one can convert the asset to cash). Assets are followed by the liabilities. The difference between the assets and the liabilities is known as equity or the net assets or the net worth or capital of the company and, according to the accounting equation, net worth must equal assets minus liabilities.

A common error when looking at the balance sheet is to forget that tangible fixed assets may be difficult to sell, or to sell quickly. So an organization may be "asset rich" but "cash poor".

(c) Cashflow Statement

A cashflow statement is a financial statement that shows how changes in balance sheet accounts and income affect cash and cash equivalents.

Essentially, the cashflow statement is concerned with the flow of cash in and out of the company. The statement captures both the current operating results and the accompanying changes in the balance sheet. As an analytical tool, the cashflow statement is useful in determining the short-term viability of a company, particularly its ability to pay bills.

A very common mistake is to look only at the Income & Expenditure Account without paying attention to the cashflow statement. In such a situation, you may be making a healthy annual profit, but you may in fact be bankrupt because you are unable to pay your bills as they fall due because you have insufficient cash in the immediate term. This is why battle-hardened entrepreneurs often say “Cash is king”.

Using grants to cover repayment

This can work well if you have a pre-approved but post-dated grant pledged, so you are unable to access the grant funding until you have already incurred the expenditure (and provided proof to the grant-maker of this). This is a common situation because many grants (especially from government agencies) are paid in arrears. In this instance, the impact investment may be characterised as being a cashflow bridging loan.

For this to work, there needs to be certainty around the provision of the grant, and the impact investment assessment will be focussed on the ability of your organization to meet the terms associated with unlocking the grant.

Grant funding is unlikely to work as a means of repaying impact investment if the grants are not guaranteed, but are merely projections of what is expected to happen. The uncertainties around this, combined with the natural tendency to be over-optimistic with such projections, make this both a high risk and unattractive strategy. Even worse is when there is a reliance on legacies coming through, since there is a high degree of uncertainty as to timing.

In such cases, there is a real danger that the expected grants fail to materialise - leaving your organization unable to repay the impact investment. You then risk bankrupting your entire organization.

Is your venture socially impactful?

An entire industry of social impact measurement consultants has arisen to answer this question. This is useful where the activity is at scale, complex, or nuanced. However, for most organizations it should be self-evident to the layman as to whether the organization is creating a positive impact. There will always be questions of degree in measuring how much, and this is where there is a danger of getting bogged down in excessive detail, and where the cost of the assessment outweighs the benefit.

When assessing about the social impact of your organization, it is useful to think through the following:

- How many people will be beneficially impacted by my activity?
- How vulnerable are those people?
- What would happen to those people if my activity didn't happen?
- What is the quality of my activity compared to my peer group?

So an obvious question an investor might ask themselves is "*Would I be happy giving a grant to this organization?*" If the answer is "yes", then this suggests that the venture is indeed of sufficient social impact. (There may be technical reasons why a grant might not be possible to provide, but that's a different issue).

Another useful question to ask is: "*If this organization didn't exist, what would take its place?*". This seeks to uncover the context the organization is working in, and to understand how other organizations (both commercial and charitable) are active in the area. In essence, if there would be little provision of the proposed impact by others, then there is a stronger impact argument than if it is clear that other alternative organizations would step in and fill the gap. In other words, “*Will the activity make a difference?*”

Or to put it more emotively, “*Who would miss us if our organization disappeared?*”

Could you borrow from mainstream financial sources?

Impact investment is a scarce and valuable resource, and is very limited in size compared to mainstream commercial ‘financial-first’ lending. Therefore, it is better for organizations that are able to attract mainstream finance to do so. This then frees up impact investment for those organizations where mainstream commercial finance is inappropriate (or simply too expensive and unaffordable).

If you have attempted to obtain commercial finance, but have been unsuccessful, you should explain this to a prospective impact investor so that they can be made aware that they are in fact being asked to fill a legitimate financing gap. Many impact investors will appreciate this information from you because it demonstrates financial awareness on your part.

How much money should you ask for?

The amount you seek to raise should reflect what you actually need in order to achieve the outcome you want. You should avoid merely asking for what you think you can get away with. Not only does this show a lack of financial sophistication, but it also will come back to haunt you later.

The amount you are seeking should clearly be justified by your business plan. However, it is clearly possible to construct business plans that are adapted to handle different amounts of funding. So how much should you apply for?

One approach is to provide a variety of financial scenarios and models, at different levels, and let the investor pick the level themselves. However, this may appear confused and indecisive, and runs the risk of upsetting prospective investors. .

A common tendency is to assume that if you ask for a smaller amount, then you are more likely to get it (on the basis that if it goes wrong the investor will have less to lose). However, this is rarely a sensible approach. Asking for (and getting) too little funding creates major systemic risks for your organization:

- The project is automatically under-capitalised
- The project needs to seek further funding later on
- The management distraction of fundraising compromises your core mission
- The overall impact you might achieve is restricted in scale

For the investor, small funding requests are also undesirable since the due diligence overhead becomes disproportionately high: it costs roughly the same to assess an application, regardless of its size.

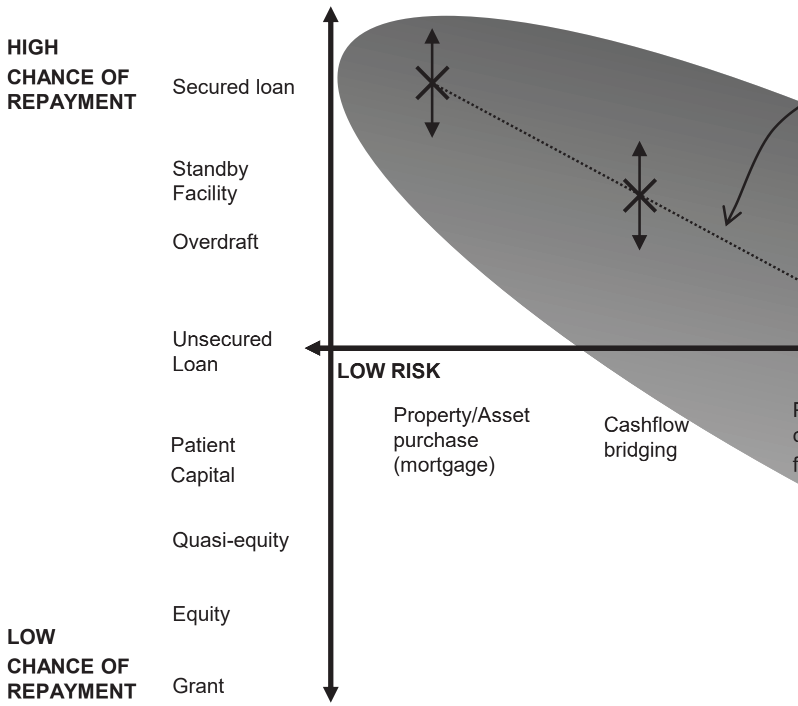
Asking for a larger amount, so long as the business plan can show it will be well used, will usually attract a wider range of investors. Furthermore, you will get on the radar of larger investors who do not consider smaller requests, and syndicates who look at larger requests and join together to support them.

Larger requests also show a scale of ambition to solve larger problems, with an aspiration to make a greater impact, which is always attractive to philanthropically-minded investors.

Matching Financial Mechanisms to Funding Needs

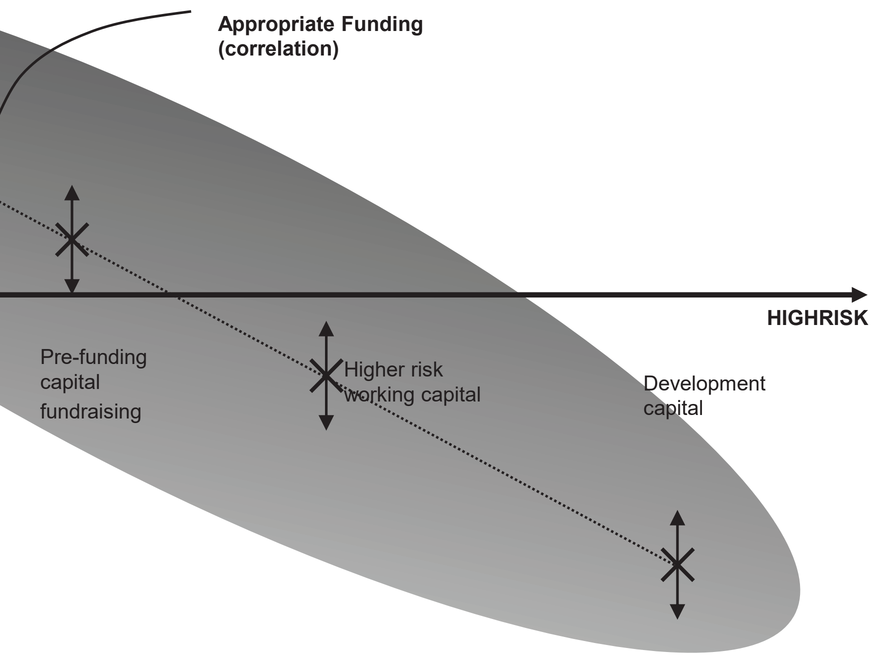
It is important that you understand that different types of money are appropriate for different types of financial needs. A generic approach to fundraising which does not clearly articulate why you need 'this type of funding' for 'this type of need' is unlikely to be successful.

On the vertical axis of the diagram are different types of financial instruments. Starting from the top of the axis are those financial instruments with a high chance of repayment (from the investor's perspective) all the way down to a financial instrument with no chance of repayment - otherwise known as a "Grant".



On the horizontal axis of the diagram are different types of funding needs and situations. Starting from the left-hand side of the axis are low financial risk situations (from the investor's perspective) all the way through to high financial risk situations. Purchasing property or physical assets is considered low risk by funders because they can secure a charge on that asset (and in the event that you fail to repay their investment, they will take possession of your asset).

"Development capital" is generally considered a high financial risk situation because this is where you are asking for funding based on a business plan. This is similar to venture capital investing where 90% of investments are expected to fail (but the 10% that do succeed, do so spectacularly).



The insight from this diagram is that there is an appropriate correlation between funding needs and financial mechanisms. So, for example, if you are purchasing property, the appropriate financial instrument for that is a long-term secured loan (aka a mortgage). If you are trying to fund your business plan to exploit a market opportunity (i.e. seeking development capital), then the appropriate financial instrument is equity (i.e. selling shares in your venture to investors) or grants.

Most charities and not-for-profit organizations do not have share capital - and so when they are seeking development capital, the appropriate ask is for grant funding and donated philanthropic capital.

It is important that you understand how financial mechanisms are matched to funding needs because there is indeed a right and a wrong answer here.

So, for example, it would be foolish and highly reckless if you were to fund your development capital needs by using a secured loan. In such an instance, you would be exposing your organization to an unacceptably high level of risk because failure to repay the loan would likely jeopardize the existence of your entire organization.

Risks - financial and social

Investors - whether commercial or impact investors - are continually looking for reasons why they should not invest. This is how they manage their downside risks. So take care when preparing your pitch to investors to cover all possible objections to your plan.

Any business plan contains risks (or ‘uncertainties’), but a good plan will seek to explain them, and show that they are understood and can be mitigated. It is better for a plan to have a long and detailed risk register, than to gloss over them and hope the investor hasn’t considered the issues. Investors only need to find one issue that isn't listed in the plan for them to be concerned that there are others they haven't thought of.

Having said that, impact investing is at the high financial risk end of the investment spectrum, so the existence of some risks will of themselves not prevent funding. The key is to show that the management is aware of, and on top of, any such issues, in addition to having a strategy to mitigate them as far as possible.

When talking with impact investors it is particularly important to show that you not only appreciate "financial risk" but also "social impact risk". It is the consideration of these two types of risk that distinguishes impact investing from commercial investing.

Social impact risk may be defined as the probability of your organization achieving (or not achieving) the specified social outcome that you are aspiring to attain.

Impact investors are more likely to fund your organization if they believe that there is a high probability that you will achieve the social outcomes that you are aiming for (in the same way that commercial investors are more likely to finance you if they believe that there is a high probability that you will achieve the financial return target that you are aiming for).

Your People

All investors want to understand the people behind the organization that they are being invited to invest in. This is because the plan itself is only a snapshot of intent, based on an ever-changing environment. Once activity starts, everything needs to adapt, and it is important that there is assurance that the people involved are up to the task. As the saying goes, "The plan is nothing, but planning is everything."

The organization should, therefore, show there is a collective capacity to handle these uncertainties, that its people have a credible track record, and they are likely to remain with the organization long enough to do so.

Moreover, it is also helpful to show a clear succession plan to cope with planned retirements, together with contingencies plans for managing key personnel. Investors invest in organizations and teams, not lone individuals. Investors always ask themselves "*Who is number 2 and 3 in this organization?*"

What type of impact investment should you ask for?

Impact Investment is a broad term, and covers all types of repayable finance (as opposed to grants or donations) where there is a financial return to the investor. In impact investing, the financial return is usually "below market rate" and not intended to be profit-maximising.

In order to select the most appropriate type of impact investment for your organization, you should carefully understand how to match financial mechanisms to funding needs. Please refer to the section above "Matching Financial Mechanisms to Funding Needs".

The simplest impact investment is a **Loan**. You are lent funds for a defined period (typically three to five years), and pay it back, with interest, either in multiple repayments over the course of the loan, or as a single 'bullet repayment' at the end. Investors will generally prefer to see multiple repayments rather than a bullet repayment, even if that means the loan amount needs to be higher, as it gives them greater engagement with the organization throughout the term, and will flag up potential problems earlier, when they may be easier to correct.

Loans may be secured with a charge to your property (e.g. a mortgage), or may be unsecured.

There are also different types of loans. Banks might offer an **Overdraft** - which is an arrangement with a bank that allows an account holder to draw on funds in excess of the amount on deposit.

Alternatively, you might take a line of credit from an impact investor such as a **Standby Facility** whereby the funder makes available capital that you can draw down in the event that you need it, but with no obligation to do so. Normally, you only pay interest on money that you actually draw down on. This can be useful where you are trying to manage the timings of your cashflow. Frequently, charities require the 'safety net' of a standby facility which can be drawn down when there is a temporary mismatch between income and expenditure.

Another type of loan is **Patient Capital** or **Soft Loan** whereby the lender loans you an amount with no interest rate (i.e. 0% loan) to be repaid either over a long period (more than 5 years) or whenever you can make the repayment.

You might also want to consider asking a funder for a **Loan Guarantee**. This is a promise by one party (the guarantor) to assume the debt obligation of a borrower if that borrower defaults. A guarantee can be limited or unlimited, making the guarantor liable for only a portion or all of the debt. This may be a useful way to unlock funding from a mainstream source such as a bank.

Bonds are a special type of loan (or "debt instrument"), which are more suited to larger amounts, since the cost of the legal paperwork to create them is much higher. When you issue a bond, you pay the bondholder an interest rate or "coupon", and repay the principal at a later date, termed the maturity date. Bonds can be traded between investors during the course of its term in a secondary market - which makes them more attractive to institutional investors.

Equity is where the investor buys shares in your organization, in return for a capital investment. The investor recoups their investment by being paid a dividend, and can sell the shares to other potential investors if they so wish. Shares may be listed on a stock exchange, or more likely with social enterprises, unlisted.

Equity is only possible for organizations that have share capital, so does not work for charities or similar entities that are 'companies limited by guarantee' rather than 'companies limited by shares'.

However, it may be advantageous to offer investors an investment mechanism that combines elements of both debt and equity funding. In this case, you can use a type of financial instrument called "**Quasi-Equity**" or a "**Revenue Participation Agreement**" (they mean the same thing).

The investor provides capital to the organization, and has a contract that specifies how much the organization pays back to the investor depending on the pre-agreed success metrics. Typically, these will be based around revenue, rather than profit, since revenue is easier to measure (and harder to manipulate).

The advantage to you of using this type of instrument is that it more fairly shares the risk and reward between investor and investee. So if your venture fails, then you owe the investor nothing. But in the event of success, the investor shares in this upside.

Since the primary motive for impact investors is social impact, rather than profit, it is usual for such agreements to have an upper limit on the amount that is returned to the investor, expressed as a multiple of the amount invested, and there may also be a time limit, after which no further payments are made.

There are also emerging financial mechanisms such as **Social Impact Bonds** (also known as **Pay-for-Success Bonds** in the US). These are, in fact, legal contractual agreements between government agencies and private investors. They are not "bonds" in the sense of debt instruments. Private investors agree to pay for a particular social intervention (such as rehabilitating ex-offenders) and will get repaid when specified targeted outcomes are achieved (e.g. the reoffending rate declines when benchmarked against a control group). Social Impact Bonds are useful mechanisms for tackling social problems upstream in their early stages, rather than downstream when the cost of alleviation is high. They remain, however, difficult and time-consuming to design - and require specialist social finance advice.

What legal form should your organization take?

Many social entrepreneurs come to us and ask “*What legal form should I adopt for my new social enterprise?*” But this is the wrong question.

The right question at the beginning is always “*What am I trying to achieve?*”

You must first decide what you are trying to achieve, and then select the most effective legal form in order to make that happen.

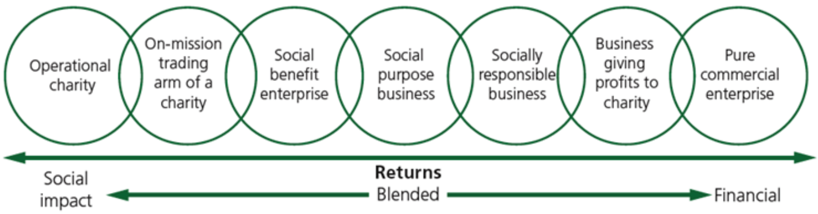
This will be determined by various (often competing) factors. For example, being a registered charity might seem to give good signalling to charitable funders (and enable grant funding), but might constrain your ability to trade, or to offer share incentive schemes to employees. To provide you with sufficient flexibility to achieve your objectives, you may need to incorporate as several legal entities of different forms, or in different jurisdictions.

Certain funders are more comfortable with certain types of legal form. So, for example, grant-making foundations like to deal with registered charities because this is a legal form that they are accustomed to.

In recent years new ‘Profit-with-purpose’ legal forms have appeared - in the USA there are Benefit Corporations, Flexible Purpose Corporations (FPCs), and Social Purpose Corporations

(SPCs), and in the United Kingdom there are Community Interest Company (CICs), Charitable Incorporated Organisations (CIOs) and Community Benefit Societies (CBSs). This is an active area of global legislative innovation, with further new legal forms emerging in Canada and elsewhere.

There are pros and cons to every legal form, and you will almost certainly have to make trade-offs. Remember that there is no logical correlation between your legal form and your actual social impact. Legal form does not necessarily imply actual social impact, any more than they imply business effectiveness. There are plenty of ineffective and poorly-managed charities in the world, as well as numerous for-profit enterprises that have huge positive impact on the communities they serve.



A Spectrum of Organisational Models

Foreign currency issues

Impact investments will normally be made in the investor's home currency, which typically means US Dollars, Pounds Sterling or Euros. If the investee is based outside the investor's home country, then they will be expected to handle the foreign exchange currency risk.

For jurisdictions with foreign exchange controls, the investee must provide proof they can repay the funds as and when required. Countries with unstable legal or political environments may increase this risk to unacceptable levels.

Choosing your investors wisely

There is a spectrum of impact investors, with a range of motivations and priorities. At one end, you have the commercial impact investor, and at the other the philanthropic impact investor. While they are all ostensibly providing the same service, there will be a difference in emphasis in each case which may affect which type of investor you prefer to work with.

It is well worth taking your time to choose the right investor so that both your interests and expectations are aligned. There is a long and sad history of organizations who fall out with their investors which leads not only to the demise of the organization, but also to the destruction of its charitable purpose.

Commercial impact investors, using either their own funds or managing funds belonging to others, are primarily profit-seeking, but with an element of impact. They might, for example, use a negative screen to ensure they are not investing in anything actually harmful. Whilst profit-seeking, they are willing to take the higher risks inherent in this area, but will be expecting a higher financial yield in return. Be aware that there is an inherent tension between seeking to maximise profits and the pursuit of a wider social mission. Commercial impact investors will want to see a positive financial return over their portfolio.

- Large volume of funds available (tens of $bn);
- Seeking higher financial yields;
- Willing to consider less impactful ventures.

Philanthropic impact investors, such as SharedImpact, are investing funds primarily to facilitate social impact. Such investors will, therefore, be very interested in the nature and scale of the impact, and will have a greater appetite for financial risk if they can see that the impact will be created. Philanthropic impact investors will be willing to accept a negative return over their portfolio - when yields and defaults are considered.

Philanthropic impact investors may also be willing to provide funds for a lower than normal yield, if a project cannot afford more commercial rates. Such funding is in relatively limited supply, so it may be used in combination with more commercial impact investors in blended financial instruments.

- Smaller volume of funds available (hundreds of $m);
- Willing to take lower financial yields;
- Seeking ventures with high levels of impact.

Thinking about the risk/return spectrum

When approaching potential investors, it is useful to see donors and grantmakers as 'investors' along a spectrum of risk/return starting from minus 100% to (say) a market rate return of plus 8%.

'Giving away money' is another way of saying "I'm happy with a minus 100% rate of return".

So grantmakers are one type of investor with a specific risk profile. However, there are many other types of investors who are comfortable with a range of risks and commensurate rewards (e.g. I may be happy to buy a 'charity bond' which is capital protected, but gives the interest or coupon to someone else). In the United States, products such as the Calvert Community Investment Notes have proved popular.

Looked at in this way, it can be seen that charities have been predominantly focussing on just one type of investor – situated at the "minus 100%" end of the spectrum. In future, a social investment banking function should cater to the full range of investors along the whole continuum of risk/return (up to, but not including, market-rate returns) – thereby, unlocking new capital into the sector.

However, most people find it difficult to think about this risk/return spectrum because it not does come naturally to the way we have been conditioned to think. There is a mindset problem. The following comments from Sasha Dichter of the Acumen Fund neatly articulate the conundrum:

> *"One of the biggest challenges for anyone in our space is asking people to combine an investing mindset with their philanthropic thinking. Not a lot of organizations are asking people to go to that middle space and consider, 'What is the 'right' return on capital for a social investment?' 'What's the 'right' level of impact per dollar spent?'*
>
> *As a sector I think we could get a lot more sophisticated in explaining that there's a big space between a negative 100 percent financial return (for grants) and double digit returns for private equity. We need to define that middle ground if we expect to see significant influxes of new capital.*
>
> *The big opportunity we have if we want to see real innovation to tackle global poverty is to get more comfortable making bets on people and organizations, not just programs - the way the venture industry bets heavily on people and networks to bring the best ideas forward."*

Financial resilience, not sustainability

We hope that this guide has been helpful in highlighting the range of financial options that are in fact open to charities, social enterprises and other social-purpose organizations.

One of the great myths of the social enterprise sector is that all organizations should be "financially sustainable".

But the term 'sustainable' has come to have an unfortunate connotation. It is often taken to mean the holy grail of 100 percent trading income. This ignores the fact that for most charities and social enterprises, grants are, and will continue to be, an important part of the funding mix.

Grants fulfil a variety of functions, for example, enabling organizations to:

- provide charitable services where there is no inherent revenue;
- develop and test new innovative or unproven services;
- meet initial deficits as a service develops to capacity;
- build organizational capacity (for example, consultancy help with business planning or board development);
- provide services which are not a priority for the public sector;
- move on to the next stage of development: for example, replicating a service that has proven its efficacy in a particular area.

From our perspective, 'financial resilience' is a better descriptor than 'sustainability'. It suggests organizations that are better able to withstand financial shocks: for example, a major funder withdrawing a grant.

It also suggests that gaining financial strength, progressing towards a healthy balance sheet, and securing an appropriate level of reserves is difficult and on-going, rather than a one-time fix.

Improving financial resilience is, in our experience, an on-going struggle, a journey rather than a destination. It is important in this context to dispel a myth - it is sometimes assumed that trading income is more secure than grant or other public sector income, but it is not. The private sector knows only too well that the market is fickle; purchasers can decide to change their habits. Fashions may change, and businesses may fail as a result.

Building financial resilience is crucial to achieving social impact over time and requires insight and hard work by impact investees. It also requires a new approach from funders so that thoughtful, relevant funding is provided.

SharedImpact®

Also available:

Charity Funding Services

Engaging Corporate Purpose

Impact Philanthropy
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